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High-level ministerial segment and policy dialogue with heads of international organizations

Note verbale dated 21 April 2005 from the Permanent Mission of Costa Rica to the United Nations addressed to the Secretary-General

The Permanent Mission of Costa Rica to the United Nations presents its compliments to the Secretary-General of the United Nations and has the honour to submit herewith the country-led initiative summary report on "Innovative financial mechanisms: searching for viable alternatives to secure the basis for the financial sustainability of forests" (see annex).

The Permanent Mission of Costa Rica to the United Nations requests the Secretary-General to include this report among the documentation for the fifth session of the United Nations Forum on Forests, to be held from 16 to 27 May 2005.

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Annex to the note verbale dated 21 April 2005 from the Permanent Mission of Costa Rica to the United Nations addressed to the Secretary-General

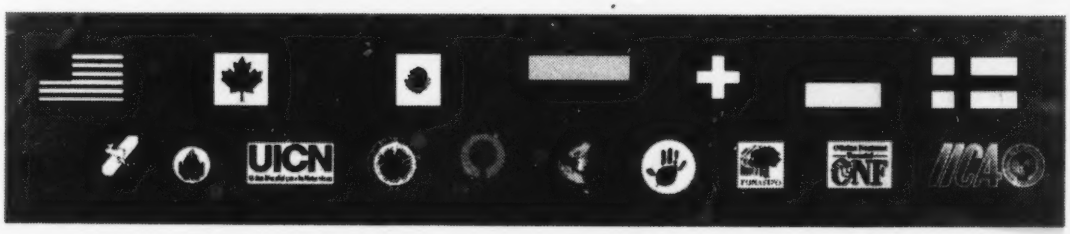
[Original: English and Spanish]

Government of Costa Rica
Ministry of the Environment and Energy
National Forestry Financing Fund
Inter-American Institute for Cooperation on Agriculture

Country-led initiative on
"Innovative financial mechanisms: searching for viable alternatives to secure basis for the financial sustainability of forests"

SUMMARY REPORT*

San José, Costa Rica
29 March – 1 April 2005



CO-SPONSORING COUNTRIES AND ORGANIZATIONS

* The final report will be presented at the fifth session of the United Nations Forum on Forests.

1. Foreword

The Government of Costa Rica with the financial support of Canada, Switzerland, the Program of Forests of the World Bank (PROFOR) the Central American Bank for Economic Integration (CABEI) and the Inter-American Institute for Cooperation on Agriculture(IICA), and with the co-sponsorship of Colombia, the United States of America, Finland. Indonesia, México, the International Union for the Conservation of Nature – Mesoamerica- (IUCN-HORMA), the Central American Strategy on Forests of the Central American Commission on Environment and Development (EFCA-CCAD), the Association for Indigenous and Peasant Coordination for Community Agro-forestry of Central America (ACICAFOC), the National Forestry Office and the National Forest Financing Fund (FONAFIFO), organized a country-led initiative for an "International Experts Meeting on *Innovative financial mechanisms: searching for viable alternatives to secure basis for the financial sustainability of forests"*

The meeting was held in the headquarters of the Inter-American Institute for Cooperation on Agriculture (IICA), located in the city of San Isidro of Coronado, San José, Costa Rica; from March 29 to April 1st, 2005, with the participation of around 100 experts both national and international. The general objective of the meeting was to contribute to the international forest dialogue and in particular to the long term processes or mechanisms to secure the basis for the financial sustainability of sustainable forest management also considering their contribution to achieve the Millennium Development Goals and the Johannesburg Plan of Implementation.

During the Opening Session speeches were presented by Dr. Ramon Montoya, Representative of the IICA in Costa Rica; the Costa Rica Focal Point to the UNFF Mr. Ricardo Ulate; Dr. Mahendra Joshi on behalf of the Secretariat of the UNFF and Dr. Carlos Manuel Rodriguez, Minister of Environment and Energy of Costa Rica, who also presented a lecture on the issue. The meeting was co-chaired by Terry Hatton from the Canadian Forest Service and Ricardo Ulate, Advisor of the Ministry of Environment and Energy of Costa Rica.

During the meeting presentations were made on existing different financial mechanisms that may be used in the mobilization of resources to sustainable forest management, including funding from the international development banking system, debt for nature swaps, environmental services payment systems, mechanisms from different international conventions and organizations as well as the potential opportunities deriving from the so called "carbon markets", followed by comments and discussions. The third day of activities was devoted to a field trip where practical experiences were presented on the functioning of some of the mechanisms been implemented in Costa Rica. At the end of the meeting a general discussion was made on the basis of a draft report. The key elements discussed are herewith presented.

This report has been prepared with the specific aim of forwarding it to the United Nations Forum on Forests to facilitate a more productive dialogue on the issue during the forthcoming V Session. and basically contains a summary of the key views expressed during the Experts Meeting, both by lecturers as well as for the participants, thus it is not a negotiated text but contains the contributions made by participants on a personal basis.

During the preparation of the report an attempt has been made in order not to repeat issues discussed during previous meetings and to elaborate in more detail on the new elements, nevertheless there are some recurring themes difficult to ignore due their relevance for the international community and particularly for the international dialogue on forests.

During the forthcoming months a detailed report of the Country-led Initiative will be prepared and will follow the structure presented below. The organizers are seeking for an opportunity to present the results during a side event during UNFF V as well as to be distributed to the general public.

Structure of the Final Report

1. Presentation
2. Background
3. General and Specific Objectives
4. Place and date of the meeting
5. Participants

6. Agenda
7. Conduct of the meeting (Presentations and discussion)
8. Key elements
9. Annexes

2. Key elements

During the meeting, the Expert Group identified among others, the following key elements[2]:

2.1. Financing Sustainable Forest Management continues to be a central element of the international dialogue on forest and should also be considered as an integral part of broader efforts been developed by the international community towards the achievement of sustainable development. Acknowledging that during previous meetings it has been discussed that financial resources available for Sustainable Forest Management are still insufficient, the required measures to increase and improve such mobilization should include a wide range of mechanisms and sources, both traditional and innovative, that allow the allocation of resources needed to achieve the agreed national and international sustainable development objectives, and in particular to contribute in a more efficient way to achieve the Millennium Development Goals (MDGs), the Johannesburg Plan of Implementation (JPOI), the Monterrey Consensus on financing for development and the subsequent meetings of the IPF-IFF-UNFF processes. Additional efforts should also be made to keep the positioning of forests in the international development agenda.

2.2. Recognizing that some efforts had been made to overcome obstacles and limitations, the experts considered that many of them still persist (as per indicated below) and limit the capacity of countries and the international community in general, to access resources for Sustainable Forest Management[3]. This list should not be interpreted or intended as to replace or exclude other identified in previous meetings related to the international forest dialogue and should be seen as complementary.

2.2.1. Lack of sufficient information or limited outreach on existing financial and investment mechanisms, in both, the public and private sector.

2.2.2. High transaction costs (i.e , political, bureaucratic, financial and operational) to access resources managed by different administration mechanisms, which provide intermediary services or facilitation for accessing such resources.

2.2.3. Need to guarantee more transparency in the management or resources devoted to sustainable forest management and appropriate measures to promote private investments.

2.2.4. Dispersion of efforts in the mobilization of resources due to the existence of diverse mechanisms at the national and international level.

2.2.5. Lack of a clear links among resources management strategies for SFM and other wider strategies at the international and national level (i.e. national development strategies, poverty alleviation strategies, integral development, MDGs)

[2] Some participants suggested to cluster the comments according to thematic areas nevertheless it was finally decided to keep the present format due to time constraints for the presentation of the report to the UNFF.

[3] Some participants also mentioned that Official Development Assistance continues to present obstacles, nevertheless there was not an specific debate on the issue during the meeting since it has been previously considered in previous meetings.

2.2.6. Lack of coincidence among national objectives and the priorities defined by the donors or investors in the mobilization of resources to SFM.

2.2.7. Limited access capacity of the forest sector to international resources due to the failure in including SFM in the national investment priorities.

2.2.8. Weak or lack of investing and financing strategies in the national forest policy planning processes (i.e. NFP)

2.2.9. Difficulties, at the national and international level, in the valuation and recognition of the multiple benefits derived from forests.

2.2.10. Persistent problems related to illegal logging and related illegal trade limit the generation of resources.

2.2.11. Perceptions among decision makers to consider the financing of the forest sector as an expense and not an investment.

2.2.12. Persistent difficulties related to land titles and land tenure rights both individual and community that limit the investment potential in the forest sector.

2.2.13. Difficulties to demonstrate the contribution of SFM to the national and international economy, due to, among others, the use of traditional national accounting systems, that do not allow gathering and allocating the integral value to the goods and services provided by forests.

2.2.14. Limited participation of the private sector in the definition of national policies and investment priorities as well as limited markets to enhance investments in goods and services derived from forests.

2.2.15. The future International arrangement on forests regardless of its nature should include a financial component for cooperation and transfer of environmentally sound technologies that could help developing countries to solve their needs on training and funds for the implementation of the national programs taking particularly into account the innovative financial mechanisms discussed during the experts meeting.

2.3. With the objective of contributing to the solutions to overcome obstacles and limitations identified above, the Expert Group considers of fundamental importance that Member States, UNFF, member organizations of the Collaborative Partnership on Forest, interested governmental or non governmental entities, as appropriate:

2.3.1. Promote research, systematization, training and diffusion actions, information and transfer of experiences that will strengthen national, regional and international capacities, with the aim to include in the processes of plans and policy development for SFM the following aspects:

2.3.1.1. Resource mobilization strategies to address the needs of the different programs and policies and forest plan components at the different levels (local, national, regional and international), as an integral or complementary part, as appropriate, including the possibility of developing specific "business plans" for financing NFP´s.

2.3.1.2. Mechanisms to identify, within the wide range of potential current sources of investment and financing, those that better fit with the specific needs of the different actors and components of the forest sector.

2.3.1.3. Analysis methodologies of investment and financing options that will allow policy decision making according with the sector potential and determined priorities.

2.3.1.4. Multidimensional approaches that allow addressing the particular financing needs of the different components of the national forest plans through diverse mechanisms and sources.

2.3.1.5. Recommendations and actions to request the international financial institutions the creation and/or strengthening of financial programs, according to the needs of the forest sector, support for the national forestry funds, and the creation and strengthening of markets for forest goods and services.

2.3.1.6. Cross-sectoral dialogue processes at the national and international level, with a view to reaching consensus agreements on common or shared agendas among the working areas with common or complementary objectives, so that a more efficient use of financing and investment resources is achieved.

2.3.1.7. Legal and policy measures for the valuation, recognition and internalization of negative and positive externalities in the use of the multiple forest goods and services to generate additional resources for SFM.

2.3.1.8. Measures to include forest sector financial strategies into national investment strategies for development, and as appropriate, to link them with national poverty alleviation goals.

2.3.1.9. Resource allocation to development of studies and mechanisms to more clearly devise the contributions of SFM to national poverty alleviation goals.

2.3.1.10. Include the creation on enabling conditions in the countries as an important component to improve the mobilization of financial resources to sustainable forest management.

2.4. Promote the systematization, diffusion, transfer and knowledge on existing resource mobilization mechanisms for SFM, public and private, traditional and innovative, considering that there are still some information gaps that limit access of many countries and actors to the sources.

2.4.1. Efforts such as the "Sourcebook" developed by the Collaborative Partnership on Forests (CPF) deserve acknowledgement and should be updated on a periodical basis. The efforts and distribution mechanisms of this kind of information should be oriented to a target public that includes all relevant actors of the forest sector at the international, regional, national and local levels, and could be complemented through training activities on procedures and mechanism to access such sources.

2.4.2. It is also desirable the identification of financial resources which allow the funding of this kind of activities. Regional efforts such as the Central American Forestry Strategy may be promoted and strengthened to enhance the generation of experiences for transferring of knowledge and capacity building for mobilizing resources towards sustainable forest management.

2.4.3. The experiences and initiatives presented during the meeting of experts been implemented by a wide range of different entities (Central American Bank for Economic Integration, the Program on Forests, the World Bank, the Organization of American States, the FAO NFP Facility, the Central American Forestry Strategy of the Central American Commission on Environment and Development, the Global Mechanism of the Convention on Combat of Desertification and land degradation, Wetlands International, the International Model Forests Network, the Association for Indigenous and Peasant Coordination for Community Agro-forestry of Central America (ACICAFOC), as well as the debt for nature swap programs, the models for decision making in the field of forestry investments as in the case of Canada, the programs for payment of environmental

services as those developed in Costa Rica by the National Forestry Financing Fund, the Carbon Funds and the Clean Development Mechanisms reflect the multiplicity of options that may be considered by countries according to their own characteristics and needs, to strengthen their policies and actions for mobilizing resources to sustainable forest management.

2.5. Adopt and strengthen measures to promote transparency, transaction costs reductions and improvement in the general conditions for accessing resources for forests, among others through:

2.5.1. The design and implementation of strategic frameworks which allows a more efficient allocation of resources by the different international governmental and non governmental organizations, to avoid duplication of efforts and achieve increased levels of effectiveness in its use at the international, regional and national levels.

2.5.2. The promotion of dialogue and consensus building processes among related sectors of the public system through the generation of strategic alliances among public and private actors oriented to the definition of policy frameworks for the allocation and utilization of the different sources of funding for sustainable forest management.

2.5.3. The strengthening of the participation of the indigenous, peasant and local communities in the management of finance and investment resources for sustainable forest management.

2.5.4. The allocation of resources and the promotion of capacity building to improve the administration of financial resources for sustainable forest management including the transfer of successful experiences.

2.6. Promote the design, implementation and evaluation of innovative mechanisms and sources to allow the generation and capture of new incomes and to increase the national and international capacities for the mobilization of resources towards sustainable forest management, having in mind the lessons deriving from these, for example:

2.6.1. The environmental services payment programs that have been successfully implemented in Costa Rica and other countries may be an important mechanism for financing and investing in SFM, and it should be composed of certain core elements (adequate legal framework, institutional capacity in the public and private sector, financial management capacity, appropriate policies, transparency and credibility) on the light of which its feasibility to be applied in other countries should be analyzed.

- These are versatile mechanisms which combines multiple sources of financial resources (regular public budgets, taxes, tariffs for public services, credit, international recognition of environmental services, private resources, etc.).
- The system is based on the approach of charging those who benefit from the environmental services provided by forest and transfer them to whose who produce them and in some countries they are considered as an appropriate tool to generate investment policies for sustainable forest management and the generation of markets.
- Can be used to mobilize resources towards different objectives such as reforestation, conservation and management of forests, agro-forestry and silvipasture activities, recovering of degraded land, protection and conservation of strategic resources such as biodiversity, water, air and energy,
- They could represent an important tool to promote rural development, poverty alleviation and reduction of the rates of loss of the forest cover.

2.6.2. The debt swap programs for sustainable forest management are a tool not largely implemented but have great potential for developing countries with high levels of debt.

- These mechanisms may also be complemented with other such CDM and environmental services in order to improve its efficiency. Even they have been generally oriented to protection activities they do not explicitly exclude the possibility to be used in other forest management modalities (i.e. Costa

Rica- Canada, Costa Rica-Spain and Costa Rica-Netherlands) and they should not be interpreted as selling of forests.

- Its implementation requires the definition of priorities by the recipient countries as well as an adequate coordination and agreement among financial, monetary and forestry national authorities, as well as transparent resources management mechanisms and the appropriate capacity for absorbing resources, nevertheless there is not a unique or mandatory model.

2.6.3. Although the potential resources that may be derived from the Clean Development Mechanism and the opportunities for carbon trading for sustainable forest management exists they are still uncertain. The carbon offer is dispersing and disordered but the contrary is happening with demand situation that is reflected in the low prices of CER´s. Since this is a dynamic market it is convenient to maintain an adequate follow up so that better decision can be taken considering both the present and futures costs of transactions and also reminding that developing countries would also have to fulfill their emission reduction commitments. In this area the interested parties should develop additional efforts to reduce transaction costs for increasing its potential to contrite to sustainable forest management.

2.6.4. There are also some other mechanisms or alternatives to generate financial resources on voluntary basis such as the Climate Change Fund of the IUCN that promotes the principle of corporate responsibility and may serve as reference for related similar initiatives.

2.6.5. Even if it is still an aspiration to achieve the sustainability of forest management through increasing the profitability of forests, it is also seemed adequate to use tools been applied in other areas such as revenues on deposit bonds in the stock markets, factoring, discounts on bills and exports, securities, etc. but they were not discussed in detail.